

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 7214**

**BILL NUMBER:** SB 453

**NOTE PREPARED:** Jan 12, 2009

**BILL AMENDED:**

**SUBJECT:** Use of Gold by the State and Local Government.

**FIRST AUTHOR:** Sen. Walker

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:**     **GENERAL**  
                              **DEDICATED**  
                              **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill has the following provisions:

*Electronic Gold Currency Payment Providers:* It requires the Treasurer of State to designate one or more electronic gold currency payment providers to be a payment provider for the state and political subdivisions. It provides that an electronic gold currency payment provider must use an electronic gold currency unit that constitutes a monetary unit of account and represents a claim of title to and ownership of a specifically defined, fixed weight of gold held by an independent specie vault.

*Specie Exchange:* It specifies that a specie exchange with which an electronic gold currency payment provider associates must conduct the business of exchanging gold and silver coin, legal tender of the United States, and the electronic gold currency of the electronic gold currency payment provider.

*Electronic Gold Currency Accounts:* It requires the Treasurer of State and fiscal officers of political subdivisions to: (1) maintain one or more electronic gold currency accounts with a designated electronic gold currency payment provider; and (2) conduct all monetary transactions of the state or political subdivisions through electronic gold currency accounts.

*Media of Exchange:* It provides that after December 31, 2009, the state and political subdivisions may not compel or require any person to recognize, receive, pay out, deliver, promise to pay, or otherwise use or employ anything but gold and silver coin (in that form or in the form of a designated electronic gold currency) as media of exchange with respect to certain payments.

*Payments by the State or Political Subdivision:* It provides that after December 31, 2009, a person receiving

certain payments from the state or a political subdivision has the option of accepting payment in either legal tender of the United States or in electronic gold currency.

*Payments to the State or Political Subdivision:* It allows a person engaging in covered transactions to elect to receive or to pay a designated electronic gold currency instead of legal tender of the United States. It provides that if a person does not make a timely election, the medium of exchange for the transaction is legal tender of the United States.

*Exceptions to Payments in Gold:* It specifies that if there is not sufficient gold in the state's or a political subdivision's accounts with electronic gold currency payment providers for the state or the political subdivision to make any payment in gold, the payment shall be made in legal tender of the United States.

**Effective Date:** July 1, 2009.

**Explanation of State Expenditures: Summary-** The bill establishes for the state and political subdivisions a currency system based on a gold or silver standard to pay and receive funds. This “gold electronic currency” will run in parallel to the “U.S. legal tender system” currently in use, resulting in additional costs for redundant systems and conversion of currency. In addition, transaction and administrative costs for the gold electronic currency system may be higher due to the physical characteristics of the standard (storage costs) and the efficiency of the gold electronic currency payment marketplace. By establishing a gold electronic currency, the state and local units may avoid risk from collapse of the U.S. legal tender system. However, the gold electronic currency has certain near-term risks based on the efficiency of its marketplace that are not found in the U.S. legal tender system.

#### **Background -**

*State Financial Accounts:* The Treasurer of State establishes accounts with financial institutions and negotiates transaction and administrative fees for those accounts. Currently, the state has contracts with 14 financial institutions with over 150 transaction fees specified under each contract. Considerations other than transaction and administrative costs considered include the collateralization and capabilities of the institution. The state's accounts earn interest which offsets the transaction fees. The state does not invest state funds in gold.

*Examples of Transactions Costs:* Automatic clearinghouse payments and receipts cost between \$0.04 - \$0.07 per transaction; manual deposits cost about \$0.20; and sending a guaranteed wire transfer costs between \$5.00 and \$7.00, while receiving a wire transfer costs between \$5.00 and \$8.00. On average, all transactions cost about \$0.25 to process.

*Conversion:* In both receiving payments and debt borrowing, the selection of the currency used, U.S. legal tender or electronic gold units, is to be made by the outside party. Although the bill provides for electronic gold units to be acquired by the state through payment of cigarette taxes exclusively in electronic gold units and the bill sets forth the manner in which the state or local unit may pay obligations when they possess insufficient electronic gold units, the state or local units may have to convert funds to fulfill obligations if a particular currency is part of the covenant. Conversion of currency is affected by current market price as well as fees charged for conversion.

*Examples of Conversion Costs:* A review of websites indicated that cost to purchase electronic gold

units requires a commission or transaction fee of between 2% and 6% of the transaction amount. This amount generally is payable in gold grams, but may be paid in U.S. legal tender.

*Cigarette Tax Revenue:* On average between 2004 and 2007, cigarette tax revenue is about \$386 M per year. The revenue increased in FY 2008 by 43% over FY 2007 due to an additional tax. Effective August 1, 2007, cigarette taxes are distributed in the following manner:

• Medicaid Reimbursements	2.46%
• Health Initiative Fund	4.1%
• Reimbursing State General Fund for Health Plan Tax Credit	2.46%
• Cigarette Tax Fund	4.22%
• Mental Health Centers Fund	0.6%
• State General Fund	53.68%
• Pension Relief Fund	5.43%
• Indiana Check-up Plan Trust Fund	27.05%
• Affordable Housing and Community Development Fund (AHCDF)	25% of OTP
Of the amount distributed to the Cigarette Tax Fund, 1/3 goes to the Department of Natural Resources, and 2/3 goes to cities and towns based on population.	

*Electronic Gold Currency Payment Provider:* An Internet search of digital gold currency provided a table dated July 2007 which compares 10 digital gold currency payment providers' transaction fees and services available. Further Internet searching of these 10 providers indicated that 2 providers were no longer in business and that a third was restarting business after the U.S. Department of Justice had brought criminal charges concerning identity theft.

C-gold is the only electronic gold currency payment provider to post account information. According to its website c-gold has 19,295 accounts, 5,655 funded accounts, and 48,100 gold grams in circulation.

*Provider Risks:* The user agreements of the electronic gold currency payment providers reviewed are subject to the laws of governments outside of the United States. Most of the providers do not allow gold purchased outside of their system to be deposited in their accounts.

*Storage Costs:* Most of the electronic gold currency payment providers indicate storage costs are paid in gold and, in general, the cost appears to be about 1% of holdings on an annualized basis.

*Gold Compared to U.S. Dollar:* Prices of gold and the U.S. Dollar are inverse to one another. As the U.S. Dollar gains in value, the price of gold decreases, and vice versa. Currently, the price of gold is high, and the value of the U.S. Dollar is declining.

### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** Political subdivisions would be subject to the same costs and risks outlined above in the *Explanation of State Expenditures*.

**Explanation of Local Revenues:**

**State Agencies Affected:** Treasurer of State.

**Local Agencies Affected:** Political Subdivisions.

**Information Sources:** Websites of c-gold, e-gold, e-dinar, GoldExchange, CrowneGold, Liberty Reserve, Pecunix, London Gold Exchange, [www.kitco.com](http://www.kitco.com), and Bespoke Investment Group LLC.

**Fiscal Analyst:** Karen Firestone, 317-234-2106.